

PERAC AUDIT REPORT



Malden
Contributory Retirement System



JAN. 1, 2011 - DEC. 31, 2014



TABLE OF CONTENTS

Letter from the Executive Director	I
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	22
Note 5 - Actuarial Valuation and Assumptions.....	23
Note 6 - Membership Exhibit.....	24

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | ELIZABETH FONTAINE | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

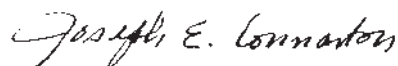
January 6, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Malden Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Membership Contributions

An inspection of the payroll records disclosed the system was not receiving contributions for compensation that was qualified for retirement purposes. Specific types of pay were not coded to deduct contributions. The auditor observed that members whose annual compensation was in excess of \$30,000 on an annualized basis did not have the requisite 2% additional contribution deducted. This occurred when the member was compensated for additional qualified service. The current procedure requires more oversight to comply with the current statutory and PERAC regulatory guidelines for regular compensation and the 2% additional contribution.

Recommendation: The Retirement Board must be the ultimate authority to determine compensation that qualifies for retirement contributions subject to and within the guidelines prescribed in 840 CMR 15.03. The system must insist that all employer units advise the Malden Retirement Board of all new payroll codes initiated by the payroll officers. Exception criteria need to be established to identify potential contributions that do not conform to the rules established by the Retirement Board. A complete payroll register must be obtained and inspected to monitor and confirm compliance on a regular basis. This function will provide additional internal financial control to confirm that contributions are accurate and benefits are earned.

Board Response:

The 2% issue related to one employer unit that was consulted approximately 2 years ago by the Board to make the required payroll program change regarding 2% deductions withheld. This unit ignored the Board's recommendation to make a payroll programming change. As a result, the issue continued and was picked up during this audit. We have met again with the employer unit who has made the required program adjustment to correct 2% member contributions. In addition the Payroll department has implemented payroll exception reports which will be generated weekly and report any unusual retirement deduction inconsistencies.

2. Expense Approval

The Retirement Board authorized payment for penalties and interest associated with the failure of the Treasurer for the City of Malden to render the tax withholding obligation for the retiree payroll. The Board is advised that this is not an appropriate use of retirement funds. The responsibility for this omission would more appropriately be a claim against the City Treasurer's performance bond.

Recommendation: The City of Malden Treasurer's Office is the custodian of the retirement system's funds pursuant to G.L. c. 32, § 23 (2)(a). Implied in the custodian's duty is to ensure compliance with federal tax laws. The Treasurer's Office was responsible for the error. The Board must insist on reimbursement from the City to recover the penalties and interest paid.

Board Response:

The IRS penalty issue was discussed in detail with PERAC audit management and the Board during the July 2nd Audit Exit Conference. Since the penalty was an isolated case which never occurred before, the Board had agreed to pay the IRS penalty out of Board funds and not to seek reimbursement from the City of Malden. Any further penalties incurred on behalf of the City of Malden and relating to Malden Retirement Board operations will be paid out of City of Malden funds.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Monthly Financial Reporting

Board members have a fiduciary responsibility to oversee the operations of the system and strengthen the system's financial reporting controls. The Malden Retirement Board would be better served by preparing a monthly cash flow forecast to supplement the Expense budget. Reporting the financial results for the current month and the year to date, in comparison with the expected results for each respective period should provide for a more informed discussion of the operations and direction of the investment portfolio.

Recommendation: The Retirement System staff should submit a monthly reporting package for the Board's review and approval. The package should contain the bank reconciliation; a complete set of closed month end GL reports such as cash disbursement and receipts journals, adjusting journal entries, and a closed trial balance. The inclusion of an analysis of significant monthly cash receipt and disbursement variances from budget or forecast would be optimal.

Board Response:

This "Best Practice" financial reporting recommendation had never been presented to the Board for implementation. As a result, it was agreed in the auditors exit conference with the Board that this comment would not be in the final audit report. The Board nevertheless agrees that the practice is an additional internal financial control and will comply with the recommendation.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	\$8,880,969	\$2,777,619	\$5,643,682
Fixed Income Securities (at fair value)	62,130,895	69,792,703	70,015,453
Equities	159,381,533	137,494,770	104,968,504
Interest Due and Accrued	391,506	406,678	454,143
Accounts Receivable	148,168	151,611	5,885,706
Accounts Payable	(69,736)	(61,793)	(2,916,171)
Total	<u>\$230,863,335</u>	<u>\$210,561,587</u>	<u>\$184,051,317</u>
Fund Balances:			
Annuity Savings Fund	\$41,909,617	\$40,991,834	\$39,715,939
Annuity Reserve Fund	14,470,520	13,999,024	13,325,856
Pension Fund	7,257,396	8,044,994	8,646,705
Military Service Fund	9,802	9,792	9,782
Expense Fund	0	0	0
Pension Reserve Fund	<u>167,216,000</u>	<u>147,515,943</u>	<u>122,353,035</u>
Total	<u>\$230,863,335</u>	<u>\$210,561,587</u>	<u>\$184,051,317</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$38,932,462	\$12,896,176	\$9,510,656	\$9,773	\$0	\$108,602,894	\$169,951,960
Receipts	4,000,461	383,164	9,784,090	10	793,203	16,938,401	31,899,329
Interfund Transfers	(2,366,585)	2,366,585	3,188,260	0	0	(3,188,260)	0
Disbursements	(850,400)	(2,320,069)	(13,836,300)	0	(793,203)	0	(17,799,971)
Ending Balance (2012)	39,715,939	13,325,856	8,646,705	9,782	0	122,353,035	184,051,317
Receipts	4,330,705	415,667	9,961,847	10	858,193	29,105,011	44,671,432
Interfund Transfers	(2,652,920)	2,652,920	3,942,103	0	0	(3,942,103)	0
Disbursements	(401,890)	(2,395,419)	(14,505,660)	0	(858,193)	0	(18,161,163)
Ending Balance (2013)	40,991,834	13,999,024	8,044,994	9,792	0	147,515,943	210,561,587
Receipts	3,971,059	421,447	10,263,026	10	962,005	24,039,282	39,656,829
Interfund Transfers	(2,722,461)	2,722,461	4,339,225	0	0	(4,339,225)	0
Disbursements	(330,815)	(2,672,412)	(15,389,849)	0	(962,005)	0	(19,355,082)
Ending Balance (2014)	<u>\$41,909,617</u>	<u>\$14,470,520</u>	<u>\$7,257,396</u>	<u>\$9,802</u>	<u>\$0</u>	<u>\$167,216,000</u>	<u>\$230,863,335</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	\$3,814,937	\$3,708,752	\$3,520,710
Transfers from Other Systems	65,491	406,329	346,137
Member Make Up Payments and Re-deposits	45,587	167,493	86,608
Investment Income Credited to Member Accounts	45,045	48,130	47,007
Sub Total	<u>3,971,059</u>	<u>4,330,705</u>	<u>4,000,461</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	421,447	415,667	383,164
Sub Total	<u>421,447</u>	<u>415,667</u>	<u>383,164</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	172,898	142,029	142,786
Received from Commonwealth for COLA and Survivor Benefits	236,780	270,797	291,639
Pension Fund Appropriation	9,816,348	9,495,715	9,335,464
Settlement of Workers' Compensation Claims	37,000	10,000	14,200
Recovery of 91A Overearnings	0	43,305	0
Sub Total	<u>10,263,026</u>	<u>9,961,847</u>	<u>9,784,090</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	10	10	10
Sub Total	<u>10</u>	<u>10</u>	<u>10</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	962,005	858,193	793,203
Sub Total	<u>962,005</u>	<u>858,193</u>	<u>793,203</u>
Pension Reserve Fund:			
Interest Not Refunded	0	0	42
Excess Investment Income	24,039,282	29,105,011	16,938,359
Sub Total	<u>24,039,282</u>	<u>29,105,011</u>	<u>16,938,401</u>
Total Receipts, Net	<u>\$39,656,829</u>	<u>\$44,671,432</u>	<u>\$31,899,329</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	\$158,525	\$310,303	\$247,151
Transfers to Other Systems	<u>172,290</u>	<u>91,588</u>	<u>603,249</u>
Sub Total	<u>330,815</u>	<u>401,890</u>	<u>850,400</u>
Annuity Reserve Fund:			
Annuities Paid	2,569,028	2,391,325	2,226,885
Option B Refunds	<u>103,384</u>	<u>4,094</u>	<u>93,184</u>
Sub Total	<u>2,672,412</u>	<u>2,395,419</u>	<u>2,320,069</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	9,824,679	9,263,203	8,674,769
Survivorship Payments	978,276	993,568	902,363
Ordinary Disability Payments	147,499	162,619	161,105
Accidental Disability Payments	3,065,194	2,815,979	2,801,923
Accidental Death Payments	548,739	535,074	579,878
Section 101 Benefits	138,143	129,926	119,750
3 (8) (c) Reimbursements to Other Systems	448,386	341,382	300,896
State Reimbursable COLA's Paid	207,048	232,026	263,733
Chapter 389 Beneficiary Increase Paid	<u>31,884</u>	<u>31,884</u>	<u>31,884</u>
Sub Total	<u>15,389,849</u>	<u>14,505,660</u>	<u>13,836,300</u>
Expense Fund:			
Board Member Stipend	27,000	25,875	20,625
Salaries	204,039	198,048	192,048
Legal Expenses	18,209	21,644	12,888
Travel Expenses	6,728	4,451	4,541
Administrative Expenses	13,261	9,789	9,404
Professional Services	10,300	10,000	10,000
Accounting Services	10,701	0	0
Furniture and Equipment	294	0	478
Management Fees	584,884	515,266	479,441
Custodial Fees	58,877	46,762	38,223
Service Contracts	18,184	17,284	16,495
Fiduciary Insurance	<u>9,528</u>	<u>9,073</u>	<u>9,060</u>
Sub Total	<u>962,005</u>	<u>858,193</u>	<u>793,203</u>
Total Disbursements	<u>\$19,355,082</u>	<u>\$18,161,163</u>	<u>\$17,799,971</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2014	2013	2012
Investment Income Received From:			
Cash	\$347	\$8,450	\$1,001
Fixed Income	2,668,278	2,554,411	2,464,832
Equities	<u>1,788,954</u>	<u>1,793,207</u>	<u>2,293,913</u>
Total Investment Income	<u>4,457,578</u>	<u>4,356,067</u>	<u>4,759,746</u>
Plus:			
Realized Gains	8,971,221	4,284,755	3,176,881
Unrealized Gains	22,427,543	29,753,065	14,698,716
Interest Due and Accrued - Current Year	<u>391,506</u>	<u>406,678</u>	<u>454,143</u>
Sub Total	<u>31,790,269</u>	<u>34,444,498</u>	<u>18,329,740</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(449,938)	(354,595)	(273,106)
Realized Loss	(9,399,660)	(5,128,432)	(2,799,921)
Unrealized Loss	(523,783)	(2,436,385)	(1,366,465)
Interest Due and Accrued - Prior Year	<u>(406,678)</u>	<u>(454,143)</u>	<u>(488,251)</u>
Sub Total	<u>(10,780,059)</u>	<u>(8,373,555)</u>	<u>(4,927,743)</u>
Net Investment Income	<u>25,467,789</u>	<u>30,427,011</u>	<u>18,161,743</u>
Income Required:			
Annuity Savings Fund	45,045	48,130	47,007
Annuity Reserve Fund	421,447	415,667	383,164
Military Service Fund	10	10	10
Expense Fund	<u>962,005</u>	<u>858,193</u>	<u>793,203</u>
Total Income Required	<u>1,428,507</u>	<u>1,322,000</u>	<u>1,223,383</u>
Net Investment Income	<u>25,467,789</u>	<u>30,427,011</u>	<u>18,161,743</u>
Less: Total Income Required	<u>1,428,507</u>	<u>1,322,000</u>	<u>1,223,383</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$24,039,282</u>	<u>\$29,105,011</u>	<u>\$16,938,359</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$8,880,969	3.9%
Fixed Income Securities (at fair value)	62,130,895	27.0%
Equities	159,381,533	69.2%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	\$230,393,396	100.0%

For the year ending December 31, 2014, the rate of return for the investments of the Malden Retirement System was 12.27%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Malden Retirement System averaged 11.18%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Malden Retirement System was 10.08%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Malden Retirement System has not submitted any supplementary investment regulations to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Malden Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one-time payment of \$100,000 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains a single investment manager to whom they have delegated the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

0

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Malden Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Creditable Service

May 30, 2013: Elected Officials: For any individual who becomes a member of the Malden Retirement System ("System") after the effective date of this regulation, creditable service rendered as a City Councilor or School Committee Member shall be calculated pursuant to G.L. c. 32, § 4(2)(b) for each full calendar year served and prorated for any portion thereof as follows:

For a City Councilor or School Committee Member who is employed in a capacity as either an elected City Councilor or elected School Committee member throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the System, with said service not to exceed one (1) year of creditable service in any calendar year.

For a City Councilor or School Committee Member who has rendered or does render membership service in the System in both a full-time position and as an elected member of either the Malden City Council or Malden School Committee, the member shall receive full credit for all full-time service for service rendered in all positions, with said service not to exceed one (1) year of creditable service in any calendar year.

Time will be prorated for any partial years served

The Mayor of the City of Malden shall receive full time credit for each and every full month served in such capacity.

Part Time Work-Hourly Employees: For any individual who becomes a member of the Malden Retirement System ("System") after the effective date of this regulation, where such member renders service on a part time basis and only on a part time basis, membership service will be credited as full-time. However, if the member also provides service in a full-time position in the City of Malden or in a member unit of the System following the effective date of this regulation, whether before the part time service rendered or after, the member's part-time service shall be prorated based on the full-time equivalent of the position as determined by the Retirement Board.

Any member who becomes a member of the system after the effective date of this regulation wishing to purchase creditable service for part time work, where said member worked on an hourly basis, shall be allowed to purchase creditable service calculated as follows:

Creditable service shall be calculated by dividing the hours worked into the number of hours regularly scheduled to be worked for a person working full time in that job as determined by the Retirement Board, to determine the amount of creditable service eligible to be purchased.

NOTES TO FINANCIAL STATEMENTS (Continued)

Boards, Commissions and other Stipend Receiving Positions: Creditable service for all service provided after the effective date of this regulation by any individual, who is not an elected official, who provides compensated service on a board or commission to the City of Malden or any member unit of the System, or other similar entity who later becomes a member of the System, shall be calculated as follows:

Service time shall be calculated on the basis of 1 month creditable service for every three months served.

In addition to the foregoing, any such service rendered on or after July 1, 2009, or until the end of an official's term that began prior to said date, must also be compensated in the amount of at least \$5,000 annually in wages to be eligible.

April 18, 2003

Military Buybacks The Malden Retirement Board, consistent with the provisions of G.L. c. 32, § 4(1)(h), as amended, requires that any member who is a veteran as defined in G.L. c. 32, § 1 must apply to purchase his past service rendered in the armed forces of the United States within one hundred and eighty (180) days of being notified of eligibility to purchase such service. Once a member has made application to purchase his past veteran's service the member may purchase said service in a lump-sum at any time prior to the effective date of his retirement.

October 17, 1989

Buy-Backs Employees paid for services from Federal Community Development Grants and members of the retirement system seeking to buy back service credit paid from Community Development Grants shall not receive approval for creditable service for this service until funding for said service is received from Community Development funds received by the City. This action was taken in accordance with the provisions of chapter 66I of the acts of 1983, section 24.

November 25, 1987

Buy-Backs Part time employees hired after January 1, 1988 not allowed prior service credit for periods of less than twenty hours per calendar week.

Miscellaneous

January 11, 1985: Various Approval of rules on the following subjects: Name; board; staff; staff salaries; staff benefits; staff hiring; chairman of board; board policy; ex-officio member; executive secretary; meetings; investments; investment counselor; membership; superannuation retirement; ordinary disability; accidental disability; refunds; vouchers; safe deposit vault; disbursement of funds; two applications; organization of staff

Travel Regulations:

The Malden Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/03travelreg/maldentravelreg.html>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Controller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Charles Ranaghan

Appointed Member: Domenic Fermano Term Expires: 6/10/2016

Elected Member: Warren Atkinson, Jr. Chairman Term Expires: 11/30/2017

Elected Member: Douglas Eisnor Term Expires: 11/30/2017

Appointed Member: Joanne Croken Term Expires: 6/11/2016

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Fidelity insurance is designed to cover specific intentional acts such as theft, fraud or embezzlement committed by employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. Statutorily required coverage is provided by the current fidelity insurance policy of \$1,000,000 with a \$10,000 deductible issued through Travelers Insurance Company.

Fiduciary liability insurance covers the individual Retirement Board members, both past and present, from claims for mismanagement brought by plan members, employers, and/or retirees. The policy requires the insured to exercise best judgment and covers alleged, unintentional breaches of fiduciary responsibilities. The Malden Retirement Board has coverage to a limit of \$50,000,000 with a \$10,000 deductible provided under a master MACRS sponsored policy issued through a layered program with Travelers, National Union Fire, and State National Insurance.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2014.

The actuarial liability for active members was	\$125,211,039
The actuarial liability for vested terminated members was	2,468,462
The actuarial liability for non-vested terminated members was	462,575
The actuarial liability for retired members and survivors was	<u>152,980,894</u>
The total actuarial liability was	\$281,122,970
System assets as of that date were	<u>197,673,113</u>
The unfunded actuarial liability was	<u><u>\$83,449,857</u></u>
 The ratio of system's assets to total actuarial liability was	 70.3%
As of that date the total covered employee payroll was	\$39,954,949

The normal cost for employees on that date was 8.7% of payroll
The normal cost for the employer was 5.7% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.75% per annum
Rate of Salary Increase: 4.25% - 4.75% ultimate rate per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$197,673,113	\$281,122,970	\$83,449,857	70.3%	\$39,954,949	208.9%
1/1/2012	\$179,323,781	\$255,787,183	\$76,463,402	70.1%	\$37,916,487	201.7%
1/1/2010	\$168,990,386	\$233,015,282	\$64,024,896	72.5%	\$37,962,202	168.7%
1/1/2008	\$158,605,001	\$216,497,563	\$57,892,562	73.3%	\$37,542,993	154.2%
1/1/2006	\$138,779,587	\$194,548,900	\$55,769,313	71.3%	\$33,767,081	165.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	11	21	12	17	32	22	29	33	22	31
Ordinary Disability	0	2	0	0	1	1	0	1	0	0
Accidental Disability	1	5	2	3	5	5	2	6	2	9
Total Retirements	12	28	14	20	38	28	31	40	24	40
 Total Retirees, Beneficiaries and Survivors	701	703	695	682	666	702	679	671	698	677
 Total Active Members	918	894	908	913	801	807	812	810	824	795
Pension Payments										
Superannuation	\$6,674,170	\$7,011,123	\$7,067,609	\$7,069,088	\$7,508,826	\$7,888,330	\$8,473,670	\$8,674,769	\$9,263,203	\$9,824,679
Survivor/Beneficiary Payments	608,978	641,797	729,465	664,624	752,554	823,922	855,684	902,363	993,568	978,276
Ordinary Disability	122,139	127,438	139,679	142,923	156,043	179,822	173,775	161,105	162,619	147,499
Accidental Disability	2,050,015	2,159,855	2,266,562	2,372,552	2,522,325	2,766,173	2,845,412	2,801,923	2,815,979	3,065,194
Other	<u>1,294,176</u>	<u>1,354,763</u>	<u>1,289,951</u>	<u>1,238,733</u>	<u>1,214,827</u>	<u>1,210,933</u>	<u>1,268,855</u>	<u>1,296,141</u>	<u>1,270,292</u>	<u>1,374,200</u>
Total Payments for Year	<u>\$10,749,478</u>	<u>\$11,294,976</u>	<u>\$11,493,266</u>	<u>\$11,487,920</u>	<u>\$12,154,575</u>	<u>\$12,869,180</u>	<u>\$13,617,396</u>	<u>\$13,836,300</u>	<u>\$14,505,660</u>	<u>\$15,389,849</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac